

FDIC State Profile

Winter 2005

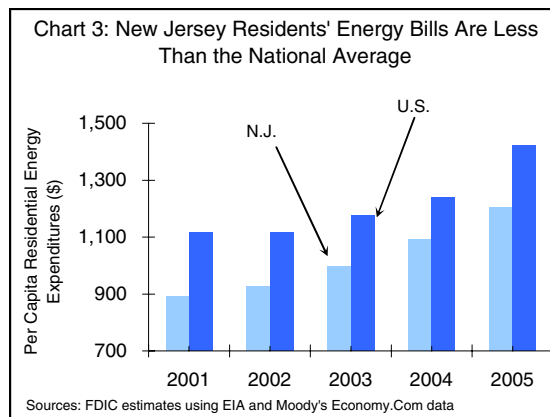
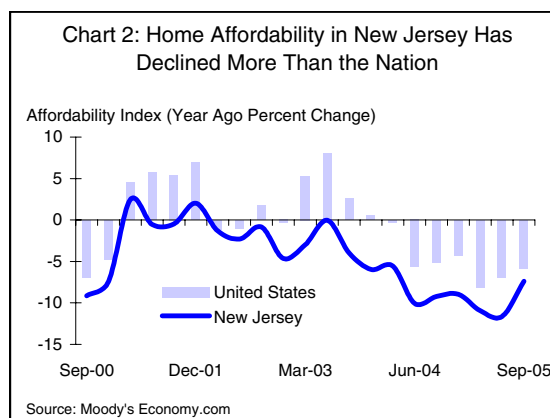
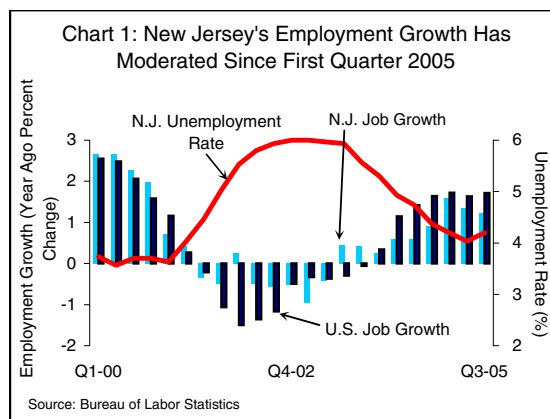
New Jersey

New Jersey's economic growth moderated during 2005.

- New Jersey's job growth rate has eased after reaching a four-year high in first quarter 2005 (see Chart 1). After declining steadily for the past two years, the state's unemployment rate slightly increased in the third quarter 2005 primarily because of an increase in the labor force.
- New Jersey's easing job growth during the first three quarters of 2005 primarily reflected less growth in the government (state and local) and construction sectors and increased manufacturing job losses. Two-thirds of the state's net new jobs added were in retail trade, health services, and restaurants. The rate of job losses in the state's telecommunication industry declined as consolidation slowed.
- **Camden** led the state's areas in job growth, while **Newark-Union** continued to lose jobs.

New Jersey's housing activity may be transitioning to a moderate pace this winter.

- At 13.7 percent, New Jersey home appreciation remained strong in third quarter 2005 (13th highest in the nation), although the rate has eased after reaching a cyclical peak of 18.5 percent one year earlier. Appreciation rates slowed across all of the state's housing markets.¹
- Rising interest rates and increasing home prices have contributed to declining home affordability in New Jersey. Housing affordability has eroded at a greater rate in the state than the nation over the past several years (see Chart 2). Excluding the **Vineland** and Camden metro areas, the majority of the state's housing markets were less affordable than the national average.²
- Reduced affordability and rising interest rates may be contributing to a moderation in housing demand this winter. The rate of existing single-family home sales in New Jersey has slowed since second quarter 2004. This trend has been most apparent in northern New Jersey



¹Office of the Federal Housing Enterprise Oversight.

²Moody's Economy.com.

State Profile

where home sales declined in the third quarter 2005 compared with the similar 2004 period, while the rate of sales growth in central and southern New Jersey has trended down since mid-2004.³

Higher heating costs could strain some New Jersey's consumers this winter.

- New Jersey's residential energy costs have increased this winter, and the state's natural gas providers have asked for rate increases of between 15 and 30 percent.⁴ Energy expenditures for New Jersey residents have been increasing over the last several years but remained less than the national average (see Chart 3).
- The combination of energy costs and rising interest rates may stress some of the state's consumers this winter. Personal bankruptcy filings increased nationally and in New Jersey prior to the enactment of the new bankruptcy law in October 2005. However, personal bankruptcy filings per capita in the state remained lower than the national average.

Net interest margins contracted, although New Jersey banks' deposit costs lagged increases in interest rates.

- The profitability (return on assets) of New Jersey's institutions for third quarter 2005 declined slightly from the similar 2004 period. New Jersey banks partially offset narrowing net interest margins by trimming operating expenses (as a percent of average assets) and by slightly reducing loan loss provisions.⁵ Increases in bank funding costs have lagged rises in short-term interest rates over the past year. Between third quarter 2004 and third quarter 2005, funding costs increased 54 basis points compared with a 200 basis-point increase in the Federal funds rate.
- At 14.6 percent, the state's loan growth was strong and ranked 11th highest in the nation during third quarter 2005. Credit quality remained favorable, as the ratio of past-dues to total loans was one-half of the national average.

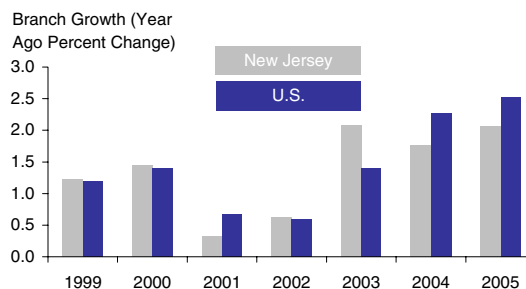
Annual Summary of Deposit data collected by the FDIC shows branch growth has accelerated primarily in northern New Jersey.

- After several years of modest growth, the growth rate of bank branches in New Jersey was higher over the past three years (see Chart 4).⁶ The brick-and-mortar approach

has re-emerged as banks compete for proximity to retail and commercial customers, which has offset industry consolidation and on-line banking's effect on branch growth.

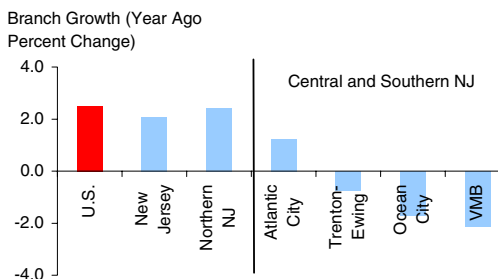
- Since 2002, 183 branches have been added in the state, including 65 in the past year. The strongest growth has been in northern New Jersey (see Chart 5). These areas have favorable population trends and higher income levels than other parts of the state.
- Population per branch has decreased and was lower in New Jersey than the nation, a reflection of the state's vibrant banking conditions. In New Jersey, there was one branch for every 2,700 people compared with 3,200 people for the nation as of June 2005.
- Competition for deposits and branch activity has intensified in the state. While large out-of-state banks account for the top three deposit-market-share-leaders (35 percent of total deposits) in the state, slightly more than half of the new branches added in the past year were from New Jersey-headquartered institutions.

Chart 4: Branch Growth in New Jersey Has Increased in Recent Years



Note: Data as of June 30th.
Source: FDIC/OTS Summary of Deposits.

Chart 5: Northern New Jersey Branch Growth Outpaced the Rest of the State



Note: Growth rates are from June 30, 2004 to June 30, 2005. VMB=Vineland-Millville-Bridgeton CBSA. Source: FDIC/OTS Summary of Deposits.

³New Jersey Association of Realtors.

⁴New Jersey Board of Public Utilities.

⁵Unless otherwise stated, median amounts used.

⁶Data as of June 30, 2005. <http://www2.fdic.gov/sod/>. Bank branches include branch and main offices. Northern NJ is defined herein as the following counties: Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Passaic, Somerset, Sussex, Union, and Warren.

New Jersey at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.3%	0.6%	0.6%	-0.1%
Manufacturing (8%)	-3.2%	-2.6%	-3.1%	-3.3%	-4.6%
Other (non-manufacturing) Goods-Producing (4%)	0.2%	0.5%	2.6%	3.4%	-1.3%
Private Service-Producing (72%)	1.9%	1.8%	0.5%	0.6%	0.2%
Government (16%)	0.8%	1.5%	2.3%	2.0%	1.4%
Unemployment Rate (% of labor force)	4.2	4.0	4.7	4.8	5.9

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	6.4%	5.1%	5.5%	1.6%
Single-Family Home Permits	-3.5%	-11.3%	2.7%	4.7%	-2.8%
Multifamily Building Permits	17.4%	80.0%	37.5%	40.8%	20.3%
Existing Home Sales	3.9%	-0.6%	5.5%	8.4%	4.9%
Home Price Index	13.7%	18.1%	18.5%	15.0%	10.5%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.32	5.18	4.40	4.75	5.08

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	135	136	140	139	146
Total Assets (in millions)	155,870	178,818	160,007	167,719	152,174
New Institutions (# < 3 years)	4	4	4	5	6
Subchapter S Institutions	4	4	4	4	4

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.65	0.64	0.74	0.88	0.85
ALLL/Total Loans (median %)	0.99	0.99	0.99	1.00	1.03
ALLL/Noncurrent Loans (median multiple)	2.63	2.81	2.72	2.39	2.58
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.00	0.00

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.99	9.75	9.41	9.49	8.89
Return on Assets (median %)	0.78	0.83	0.86	0.82	0.79
Pretax Return on Assets (median %)	1.19	1.27	1.22	1.23	1.15
Net Interest Margin (median %)	3.37	3.44	3.60	3.54	3.55
Yield on Earning Assets (median %)	5.43	5.28	5.08	5.03	5.19
Cost of Funding Earning Assets (median %)	2.05	1.84	1.51	1.52	1.63
Provisions to Avg. Assets (median %)	0.04	0.05	0.06	0.06	0.07
Noninterest Income to Avg. Assets (median %)	0.31	0.32	0.32	0.31	0.39
Overhead to Avg. Assets (median %)	2.50	2.45	2.57	2.58	2.63

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	61.5	59.4	58.7	60.0	57.5
Noncore Funding to Assets (median %)	18.6	17.3	16.0	16.4	16.1
Long-term Assets to Assets (median %, call filers)	22.4	23.9	27.5	25.7	29.0
Brokered Deposits (number of institutions)	29	28	24	28	21
Brokered Deposits to Assets (median % for those above)	3.6	3.6	2.5	2.7	2.7

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	20.9	20.7	27.5	29.9	31.3
Commercial Real Estate	216.5	215.5	178.2	185.9	175.2
<i>Construction & Development</i>	26.3	25.3	17.2	19.2	14.5
<i>Multifamily Residential Real Estate</i>	6.9	6.3	7.4	6.9	6.7
<i>Nonresidential Real Estate</i>	133.5	133.4	132.3	137.4	130.6
Residential Real Estate	237.2	250.8	241.6	241.7	250.1
Consumer	3.2	3.2	3.5	3.7	4.7
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
New York-Northern New Jersey-Long Island, NY-NJ-PA	233	770,488	< \$250 million	57 (42.2%)
Trenton-Ewing, NJ	25	9,302	\$250 million to \$1 billion	51 (37.8%)
Atlantic City, NJ	17	4,571	\$1 billion to \$10 billion	23 (17%)
Ocean City, NJ	13	2,529	> \$10 billion	4 (3%)
Vineland-Millville-Bridgeton, NJ	10	1,829		